

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Financial Statements
June 30, 2024 and 2023

Lutheran Social Services of Illinois and Subsidiary Corporations

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Independent Auditors' Report

To the Board of Directors of
Lutheran Social Services of Illinois and Subsidiary Corporations

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lutheran Social Services of Illinois and Subsidiary Corporations (the Organization), which comprise the consolidated statements of financial position as of June 30, 2024 and 2023, and the related consolidated statements of activities, cash flows and functional expenses and directly related program services revenue for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of June 30, 2024 and 2023, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2025 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Milwaukee, Wisconsin
March 27, 2025

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Financial Position
June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,779,237	\$ 11,578,420
Accounts receivable	17,550,719	16,215,263
Unconditional promises to give, net	248,851	138,029
Prepaid expenses and other assets	327,756	463,816
Short-term investments	<u>30,797,739</u>	<u>20,698,935</u>
Total current assets	<u>58,704,302</u>	<u>49,094,463</u>
Investments Held for Long-Term Purposes	<u>3,284,816</u>	<u>2,873,044</u>
Property and Equipment		
Land	4,173,584	4,177,672
Buildings and other improvements	100,956,291	104,004,253
Furniture and equipment	14,485,317	18,141,719
Construction in progress	<u>845,718</u>	<u>240,694</u>
Property and equipment, at cost	120,460,910	126,564,338
Less allowance for depreciation	<u>(75,124,388)</u>	<u>(78,494,380)</u>
Property and equipment, net	<u>45,336,522</u>	<u>48,069,958</u>
Other Assets		
Operating lease right-of-use assets	6,297,043	6,823,292
Finance lease right-of-use assets	5,232,422	3,536,329
Unconditional promises to give, less current portion above	376,555	200,593
Escrow deposit accounts	9,120,744	8,871,012
Security deposits	87,618	87,618
Cash surrender value of life insurance contracts	<u>273,142</u>	<u>259,679</u>
Total other assets	<u>21,387,524</u>	<u>19,778,523</u>
Total assets	<u>\$ 128,713,164</u>	<u>\$ 119,815,988</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Financial Position

June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Liabilities and Net Assets		
Current Liabilities		
Refundable advance	\$ 9,985,367	\$ 9,985,367
Current maturities of long-term debt:		
Mortgages payable	256,096	246,992
Operating lease liabilities	1,090,930	1,123,781
Finance lease liabilities	691,240	444,137
Accounts payable and other accrued expenses	7,919,720	6,655,084
Cash advances for special purposes	1,655,761	1,360,966
Accrued interest payable	34,050	34,052
Accrued salaries and wages	7,237,736	4,775,673
Accrued and withheld taxes	943,040	847,333
Deferred gain on sale of property, current	143,439	176,519
Deferred lease incentive, current	41,744	41,744
Residents' special deposits	58,209	49,906
	<u>30,057,332</u>	<u>25,741,554</u>
Long-Term Liabilities		
Long-term debt, less current maturities above:		
Mortgages payable	10,472,997	10,715,876
Operating lease liabilities	5,352,603	5,718,523
Finance lease liabilities	4,830,889	3,525,057
Conditional capital advance agreements	39,472,662	39,472,662
Conditional assisted living conversion grant agreement	3,602,995	3,602,995
Conditional federal home loan agreements	66,004	66,004
Deferred gain on sale of property, less current portion	896,490	1,039,929
Deferred lease incentive, less current portion	260,898	302,642
Liability for split interest gift arrangements	540,926	458,961
Other long-term liabilities	642,578	652,713
Tenant security deposits held in trust	386,762	374,019
Due to HUD, residual receipts	169,403	241,643
	<u>66,695,207</u>	<u>66,171,024</u>
Total long-term liabilities	<u>66,695,207</u>	<u>66,171,024</u>
Total liabilities	<u>96,752,539</u>	<u>91,912,578</u>
Net Assets		
Without donor restrictions	18,697,962	17,724,332
With donor restrictions	13,262,663	10,179,078
	<u>31,960,625</u>	<u>27,903,410</u>
Total net assets	<u>31,960,625</u>	<u>27,903,410</u>
Total liabilities and net assets	<u>\$ 128,713,164</u>	<u>\$ 119,815,988</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statement of Activities
Year Ended June 30, 2024

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Public support:			
Lutheran church support	\$ 381,441	\$ 21,988	\$ 403,429
United Way	22,601	7,430	30,031
Contributions	4,756,241	2,694,449	7,450,690
Bequests	138,637	198,203	336,840
	<u>5,298,920</u>	<u>2,922,070</u>	<u>8,220,990</u>
Total public support			
Other revenue:			
Fees and grants from government agencies	94,886,954	14,168	94,901,122
Program service fees	26,191,517	-	26,191,517
Public sales	99,534	-	99,534
Investment return, net	3,487,637	615,436	4,103,073
Loss on disposal of property and equipment	(257,415)	-	(257,415)
Miscellaneous	796,138	-	796,138
	<u>125,204,365</u>	<u>629,604</u>	<u>125,833,969</u>
Total other revenue			
Net assets released from restrictions	468,089	(468,089)	-
	<u>130,971,374</u>	<u>3,083,585</u>	<u>134,054,959</u>
Total public support and revenue			
Expenses			
Program services	116,571,207	-	116,571,207
Supporting services:			
Management and general	10,405,269	-	10,405,269
Fundraising	2,167,037	-	2,167,037
	<u>12,572,306</u>	<u>-</u>	<u>12,572,306</u>
Total supporting services			
Total program and supporting services expenses	<u>129,143,513</u>	<u>-</u>	<u>129,143,513</u>
Change in net assets before other items	1,827,861	3,083,585	4,911,446
Other Items			
Actuarial loss on annuity obligations	(58,402)	-	(58,402)
Casualty loss	(795,829)	-	(795,829)
	<u>(854,231)</u>	<u>-</u>	<u>(854,231)</u>
Total other items			
Change in net assets	973,630	3,083,585	4,057,215
Net Assets, Beginning	<u>17,724,332</u>	<u>10,179,078</u>	<u>27,903,410</u>
Net Assets, Ending	<u>\$ 18,697,962</u>	<u>\$ 13,262,663</u>	<u>\$ 31,960,625</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statement of Activities
Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Public support:			
Lutheran church support	\$ 496,303	\$ 44,833	\$ 541,136
United Way	72,466	37,500	109,966
Contributions	3,909,608	1,523,108	5,432,716
Bequests	1,554,760	33,061	1,587,821
	<u>6,033,137</u>	<u>1,638,502</u>	<u>7,671,639</u>
Total public support			
Other revenue:			
Fees and grants from government agencies	86,875,405	11,757	86,887,162
Program service fees	25,110,430	-	25,110,430
Public sales	8,101	-	8,101
Investment return, net	2,360,057	431,365	2,791,422
Gain on disposal of property and equipment	966,970	-	966,970
Miscellaneous	277,217	-	277,217
	<u>115,598,180</u>	<u>443,122</u>	<u>116,041,302</u>
Total other revenue			
Net assets released from restrictions	<u>911,293</u>	<u>(911,293)</u>	<u>-</u>
Total public support and revenue	<u>122,542,610</u>	<u>1,170,331</u>	<u>123,712,941</u>
Expenses			
Program services	<u>105,586,044</u>	<u>-</u>	<u>105,586,044</u>
Supporting services:			
Management and general	9,836,024	-	9,836,024
Fundraising	2,035,633	-	2,035,633
	<u>11,871,657</u>	<u>-</u>	<u>11,871,657</u>
Total supporting services			
Total program and supporting services expenses	<u>117,457,701</u>	<u>-</u>	<u>117,457,701</u>
Change in net assets before other items	5,084,909	1,170,331	6,255,240
Other Items			
Actuarial loss on annuity obligations	<u>(65,183)</u>	<u>-</u>	<u>(65,183)</u>
Change in net assets	5,019,726	1,170,331	6,190,057
Net Assets, Beginning	<u>12,704,606</u>	<u>9,008,747</u>	<u>21,713,353</u>
Net Assets, Ending	<u>\$ 17,724,332</u>	<u>\$ 10,179,078</u>	<u>\$ 27,903,410</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash Flows From Operating Activities		
Change in net assets	\$ 4,057,215	\$ 6,190,057
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	3,317,011	3,575,117
Actuarial loss on annuity obligations	59,877	65,183
Amortization of prepaid debt financing costs	13,404	13,404
Contributions restricted for endowment	(2,227,298)	(1,275,844)
(Gain)/loss on disposal of property and equipment	257,415	(966,970)
Reinvestment of investment income	(916,586)	(474,327)
Net realized and unrealized gain on investments	(2,914,999)	(2,145,293)
(Increase)/decrease in cash surrender value of life insurance contracts	(13,463)	1,069
Provision for credit losses / bad debt	130,209	18,643
Operating lease costs	127,478	19,012
Amortization of finance lease right-to-use assets	779,522	411,671
Changes in assets and liabilities:		
Accounts receivable	(1,465,665)	(2,544,410)
Unconditional promises to give, net	(286,784)	200,325
Prepaid expenses and other assets	136,060	633,575
Accounts payable and other accrued expenses	1,264,636	247,575
Other current liabilities	2,827,786	239,242
Other long-term liabilities	(182,575)	(760,828)
Due to HUD, residual receipts	(72,240)	(107,099)
Net cash flows from operating activities	<u>4,891,003</u>	<u>3,340,102</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(1,726,109)	(1,102,892)
Proceeds from disposal of property and equipment	885,119	1,129,320
Purchases of investments	(23,495,245)	(4,886,213)
Proceeds from sales of investments	<u>16,814,779</u>	<u>4,038,816</u>
Net cash flows from investing activities	<u>(7,521,456)</u>	<u>(820,969)</u>
Cash Flows From Financing Activities		
New split interest gift arrangement liabilities funded	95,074	-
Payments on split interest gift arrangements	(71,511)	(74,673)
Cash received for endowment	2,227,298	1,275,844
Repayment of debt	(247,179)	(238,294)
Finance lease principal payments	<u>(922,680)</u>	<u>(419,870)</u>
Net cash flows from financing activities	<u>1,081,002</u>	<u>543,007</u>
Net change in cash and cash equivalents and restricted cash	(1,549,451)	3,062,140
Cash and Cash Equivalents and Restricted Cash, Beginning	<u>20,537,050</u>	<u>17,474,910</u>
Cash and Cash Equivalents and Restricted Cash, Ending	<u>\$ 18,987,599</u>	<u>\$ 20,537,050</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Cash Flows

Years Ended June 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Cash and Cash Equivalents and Restricted Cash to the Statements of Financial Position		
Cash and cash equivalents	\$ 9,779,237	\$ 11,578,420
Escrow deposit accounts	9,120,744	8,871,012
Security deposits	<u>87,618</u>	<u>87,618</u>
Total cash and cash equivalents and restricted cash	<u>\$ 18,987,599</u>	<u>\$ 20,537,050</u>
Supplemental Cash Flow Disclosures		
Cash paid for interest	<u>\$ 577,458</u>	<u>\$ 553,705</u>
Noncash Investing and Financing Activities		
Operating lease right-of-use assets financed with operating lease liability	<u>\$ 693,299</u>	<u>\$ 8,472,563</u>
Finance lease right-of-use assets financed with finance lease liability	<u>\$ 2,475,615</u>	<u>\$ 619,404</u>
Property and equipment purchased through capital lease transferred to finance lease right-of-use asset on July 1, 2022	<u>\$ -</u>	<u>\$ 3,328,596</u>
Capital lease liabilities transferred to finance lease liabilities on July 1, 2022	<u>\$ -</u>	<u>\$ 3,769,660</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2024

	Program Services						Subtotal Program Services
	Home and Community Services					Other Operating	
	Children's Community Services	Behavioral Health Services	Developmental Disabilities Services	Senior Community Services	Housing Services		
Functional Expenses							
Salaries	\$ 30,883,739	\$ 17,509,786	\$ 4,540,001	\$ 677,975	\$ 5,332,126	\$ -	\$ 58,943,627
Employee health and retirement benefits, payroll taxes, etc.	6,815,484	3,983,316	861,388	92,563	1,563,254	-	13,316,005
Total salaries and related expenses	37,699,223	21,493,102	5,401,389	770,538	6,895,380	-	72,259,632
Professional fees and contract service payments	15,129,181	1,301,104	996,455	43,220	426,338	-	17,896,298
Supplies	113,061	1,033,836	301,716	1,567	697,097	-	2,147,277
Communications	415,385	314,723	62,925	3,416	406,655	-	1,203,104
Occupancy	2,572,109	1,384,851	785,311	21,591	6,107,355	-	10,871,217
Advertising and printing	260,800	75,175	16,294	21,488	157,278	-	531,035
Local transportation	2,041,291	169,777	194,989	5,423	172,258	-	2,583,738
Meetings, seminars and education	32,912	34,914	11,159	1,781	14,669	-	95,435
Specific assistance to individuals	1,324,314	197,758	10,787	1,740	145,300	-	1,679,899
Equipment rental and maintenance	836,932	851,643	122,605	36,729	154,682	-	2,002,591
Miscellaneous and other operating	13,508	53,244	213,441	128,147	1,222,956	3,601	1,634,897
Interest	63,014	-	21,259	3,827	418,287	-	506,387
Total functional expenses	60,501,730	26,910,127	8,138,330	1,039,467	16,818,255	3,601	113,411,510
Depreciation	79,445	175,422	119,888	1,815	2,645,743	137,384	3,159,697
Total program and supporting services expenses	<u>\$ 60,581,175</u>	<u>\$ 27,085,549</u>	<u>\$ 8,258,218</u>	<u>\$ 1,041,282</u>	<u>\$ 19,463,998</u>	<u>\$ 140,985</u>	<u>\$ 116,571,207</u>
Directly Related Program Services Revenue							
Fees and grants from governmental agencies	\$ 64,768,016	\$ 13,814,986	\$ 7,715,276	\$ 264,339	\$ 8,324,340	\$ -	\$ 94,886,957
Program service fees	915,113	14,746,958	1,091,185	408,494	9,029,767	-	26,191,517
Public sales	95,832	-	-	-	3,702	-	99,534
Investment return, net	-	134,150	-	-	61,185	367,702	563,037
Gain (loss) on disposal of property and equipment	(425,632)	85,189	(13,590)	-	-	143,439	(210,594)
Miscellaneous	443,277	50,000	9,312	-	58,552	208,700	769,841
Total directly related program services revenue	<u>\$ 65,796,606</u>	<u>\$ 28,831,283</u>	<u>\$ 8,802,183</u>	<u>\$ 672,833</u>	<u>\$ 17,477,546</u>	<u>\$ 719,841</u>	<u>\$ 122,300,292</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2024

	Supporting Services				Total
	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	
Functional Expenses					
Salaries	\$ 5,945,234	\$ 1,255,777	\$ -	\$ 1,255,777	\$ 66,144,638
Employee health and retirement benefits, payroll taxes, etc.	1,134,183	285,004	-	285,004	14,735,192
Total salaries and related expenses	7,079,417	1,540,781	-	1,540,781	80,879,830
Professional fees and contract service payments	964,795	161,931	60,762	222,693	19,083,786
Supplies	85,044	81,127	715	81,842	2,314,163
Communications	177,143	11,385	4,416	15,801	1,396,048
Occupancy	689,481	68,336	-	68,336	11,629,034
Advertising and printing	51,609	123,316	-	123,316	705,960
Local transportation	97,731	46,251	-	46,251	2,727,720
Meetings, seminars and education	247,327	3,190	1,667	4,857	347,619
Specific assistance to individuals	-	-	-	-	1,679,899
Equipment rental and maintenance	545,471	12,008	-	12,008	2,560,070
Miscellaneous and other operating	244,542	32,099	-	32,099	1,911,538
Interest	70,700	13,748	-	13,748	590,835
Total functional expenses	10,253,260	2,094,172	67,560	2,161,732	125,826,502
Depreciation	152,009	5,305	-	5,305	3,317,011
Total program and supporting services expenses	<u>\$ 10,405,269</u>	<u>\$ 2,099,477</u>	<u>\$ 67,560</u>	<u>\$ 2,167,037</u>	<u>\$ 129,143,513</u>
Directly Related Program Services Revenue					
Fees and grants from governmental agencies	\$ -	\$ 14,165	\$ -	\$ 14,165	\$ 94,901,122
Program service fees	-	-	-	-	26,191,517
Public sales	-	-	-	-	99,534
Investment return, net	-	-	3,540,036	3,540,036	4,103,073
Loss on disposal of property and equipment	(46,821)	-	-	-	(257,415)
Miscellaneous	26,297	-	-	-	796,138
Total directly related program services revenue	<u>\$ (20,524)</u>	<u>\$ 14,165</u>	<u>\$ 3,540,036</u>	<u>\$ 3,554,201</u>	<u>\$ 125,833,969</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2023

	Program Services						Subtotal Program Services
	Home and Community Services					Other Operating	
	Children's Community Services	Behavioral Health Services	Developmental Disabilities Services	Senior Community Services	Housing Services		
Functional Expenses							
Salaries	\$ 27,153,555	\$ 15,953,952	\$ 3,582,724	\$ 685,956	\$ 4,930,500	\$ -	\$ 52,306,687
Employee health and retirement benefits, payroll taxes, etc.	5,443,294	3,240,381	679,390	65,035	1,434,761	-	10,862,861
Total salaries and related expenses	32,596,849	19,194,333	4,262,114	750,991	6,365,261	-	63,169,548
Professional fees and contract service payments	12,836,201	1,829,541	1,333,412	(8,685)	541,908	3,980	16,536,357
Supplies	101,481	972,883	285,010	11,322	553,600	-	1,924,296
Communications	431,301	363,876	66,801	4,759	421,659	-	1,288,396
Occupancy	2,497,767	1,565,424	926,526	30,509	6,290,039	-	11,310,265
Advertising and printing	33,628	2,342	-	833	5,419	-	42,222
Local transportation	1,487,292	175,568	120,339	4,370	137,380	-	1,924,949
Meetings, seminars and education	22,143	35,994	8,426	-	35,739	-	102,302
Specific assistance to individuals	1,317,764	344,363	4,970	1,199	110,153	-	1,778,449
Equipment rental and maintenance	739,493	1,034,972	152,714	53,414	155,677	-	2,136,270
Miscellaneous and other operating	14,184	65,532	174,667	5,029	1,325,973	20,552	1,605,937
Interest expense	16,614	21,495	2,055	4,369	425,800	-	470,333
Total functional expenses	52,094,717	25,606,323	7,337,034	858,110	16,368,608	24,532	102,289,324
Depreciation	140,273	183,584	99,674	1,804	2,685,376	186,009	3,296,720
Total program and supporting services expenses	\$ 52,234,990	\$ 25,789,907	\$ 7,436,708	\$ 859,914	\$ 19,053,984	\$ 210,541	\$ 105,586,044
Directly Related Program Services Revenue							
Fees and grants from governmental agencies	\$ 57,132,411	\$ 13,797,584	\$ 6,966,622	\$ 229,643	\$ 8,749,145	\$ -	\$ 86,875,405
Program service fees	470,416	14,132,759	984,505	479,949	9,042,801	-	25,110,430
Public sales	2,529	-	-	-	5,572	-	8,101
Investment return, net	-	152,480	-	-	44,991	332,042	529,513
Gain (loss) on disposal of property and equipment, net	-	968,335	-	-	(1,365)	-	966,970
Miscellaneous	19,294	83,665	10,418	-	14,355	(11,293)	116,439
Total directly related program services revenue	\$ 57,624,650	\$ 29,134,823	\$ 7,961,545	\$ 709,592	\$ 17,855,499	\$ 320,749	\$ 113,606,858

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Consolidated Statements of Functional Expenses and Directly Related Program Services Revenue

Year Ended June 30, 2023

	Supporting Services				Total
	Management and General	Resource Development	The Cornerstone Foundation, Inc.	Subtotal Fundraising	
Functional Expenses					
Salaries	\$ 5,409,127	\$ 1,167,224	\$ -	\$ 1,167,224	\$ 58,883,038
Employee health and retirement benefits, payroll taxes, etc.	1,097,204	270,983	-	270,983	12,231,048
Total salaries and related expenses	6,506,331	1,438,207	-	1,438,207	71,114,086
Professional fees and contract service payments	931,250	217,221	58,940	276,161	17,743,768
Supplies	84,504	8,160	-	8,160	2,016,960
Communications	110,324	12,304	-	12,304	1,411,024
Occupancy	649,676	81,736	-	81,736	12,041,677
Advertising and printing	367,831	98,549	-	98,549	508,602
Local transportation	103,844	33,068	-	33,068	2,061,861
Meetings, seminars and education	141,975	4,765	-	4,765	249,042
Specific assistance to individuals	-	-	-	-	1,778,449
Equipment rental and maintenance	337,838	19,493	-	19,493	2,493,601
Miscellaneous and other operating	250,649	30,871	11,189	42,060	1,898,646
Interest expense	79,284	15,251	-	15,251	564,868
Total functional expenses	9,563,506	1,959,625	70,129	2,029,754	113,882,584
Depreciation	272,518	5,879	-	5,879	3,575,117
Total program and supporting services expenses	<u>\$ 9,836,024</u>	<u>\$ 1,965,504</u>	<u>\$ 70,129</u>	<u>\$ 2,035,633</u>	<u>\$ 117,457,701</u>
Directly Related Program Services Revenue					
Fees and grants from governmental agencies	\$ -	\$ 11,757	\$ -	\$ 11,757	\$ 86,887,162
Program service fees	-	-	-	-	25,110,430
Public sales	-	-	-	-	8,101
Investment return, net	(36,845)	-	2,298,754	2,298,754	2,791,422
Gain on disposal of property and equipment, net	-	-	-	-	966,970
Miscellaneous	160,778	-	-	-	277,217
Total directly related program services revenue	<u>\$ 123,933</u>	<u>\$ 11,757</u>	<u>\$ 2,298,754</u>	<u>\$ 2,310,511</u>	<u>\$ 116,041,302</u>

See notes to consolidated financial statements

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

1. Summary of Significant Accounting Policies

Nature of Activities

Lutheran Social Services of Illinois (LSSI), including the subsidiary corporations included herein (the Organization), is a multi-functional social service organization which is the social ministry expression of the three Illinois Synods of the Evangelical Lutheran Church in America (ELCA). It is a corporation organized under the laws of the State of Illinois pursuant to the provisions of the *General Not-For-Profit Corporation Act*. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and is not a private foundation under Section 509(a)(2). The Organization receives a significant portion of its operating funds from public support, fees and grants from government agencies and program service fees. The Organization's fiscal year ends on June 30. Significant accounting policies followed by the Organization are presented below.

In accordance with authoritative accounting guidance related to reporting of related entities by not-for-profit organizations, 21 affiliated not-for-profit corporations incorporated under the Illinois *General Not-For-Profit Corporation Act* are included as subsidiaries in the consolidated financial statements. These corporations are considered subsidiary corporations because LSSI has control over and an economic interest in these corporations. In addition, LSSI Rockford Property, Inc., which is a for-profit subsidiary, is also consolidated as the Organization owns 100% of that company. These subsidiary corporations are:

Assisi Homes-Downer Place, Inc.	Luther Center, Inc. **
Aurora Senior Housing, Inc.	Matins, Inc.
Batavia Council on Aging, Inc.	Northwest Chicago Group Homes, Inc.
The Cornerstone Foundation, Inc. (Foundation)	Our Savior's Senior Housing
Deer Creek Manor, Inc.	Rochelle Senior Housing, Inc.
Dekalb Housing for the Handicapped, Inc.	Rolling Meadows Senior Living, Inc.
Forsberg Christian Retirement Center, Inc. (Forsberg)*	Salem Village III, Inc.
Freeport Senior Housing, Inc.	Spring Ridge Housing for Seniors, Inc.
Freeport Senior Housing II, Inc.	Tabor Lutheran Senior Housing, Inc.
Fox Hill Senior Housing, Inc.	Vesper Management Corporation
LSSI Rockford Property, Inc.	Victorian Woods Senior Living

* In 2016, the building that Forsberg operated from was sold and Forsberg did not have any activity after transferring the net proceeds to LSSI.

** In April 2017, the building Luther Center, Inc. operated was sold and Luther Center, Inc. did not have any activity after transferring the net proceeds to LSSI.

Services that the Organization provides include:

Children's Community Services

Foster Care Services: Foster care placement and case management for children who have been removed from their birth families due to abuse and/or neglect, to achieve permanency through reunification with families or through adoption.

Behavioral Health Services

Counseling, mental health and crisis intervention, drug and alcohol treatment for youth and adults and services for formerly incarcerated individuals.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Senior and Disability Services

In-Home Services: Nonmedical assistance to older adults.

Housing and Assisted Living: Affordable housing and assisted living for older adults. Residential housing for adults with developmental disabilities.

Consolidated Financial Statement Presentation

The accompanying consolidated financial statements include the accounts of the Organization. All significant transactions among these corporations have been eliminated.

Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting.

Cash and Cash Equivalents and Restricted Cash

The Organization defines cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. Restricted cash includes escrow deposits accounts and tenant deposits in trust. The Organization does not have the ability to use these funds for operations without HUD approval due to contractual requirements or HUD imposed regulations.

Accounts Receivable

Receivables consist of outstanding balances from contracts with patients and their caregivers, the government and other grants due to the Organization. Transactions are recorded at an amount that management expects to receive from the net transaction price. Balances are recorded net of contractual adjustments for Medicaid, Medicare and other third-party payors under terms of third-party reimbursement agreements in effect as well as any implied discounts. These receivables are uncollateralized funding source obligations, which generally are payable within 30 days from the invoice or billing date. Payments are applied to the specific invoices identified on the funding source's remittance advice or, if unspecified, to the earliest unpaid invoices. The Organization follows up on past due amounts to reduce its exposure to potential uncollectible accounts. At June 30, 2024 and 2023 and 2022, the net realizable value of these receivables are \$4,414,208, \$3,741,875 and \$3,157,365, respectively. The adequacy of the Organization's estimate of net realizable receivable is reviewed on an ongoing basis, using historical payment trends, write-off experience, analysis of receivables by payor and aging of receivables, along with a review of specific accounts. Adjustments are made as necessary.

Effective July 1, 2023, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, using the modified retrospective approach. Under the standard, the Organization recognizes an allowance for credit losses to present the net amount expected to be collected as of the consolidated statement of financial position date. Such allowance is based on the credit losses expected to arise over the life of the asset which includes consideration of past events and historical loss experience, current events and also future events based on management's expectation as of the consolidated financial statement position date. Receivables are written off when the Organization determined that such receivables are deemed uncollectible.

During the year ended June 30, 2024, the Organization experienced no credit losses, bad debt expense of \$130,209 and no bad debt recoveries. As of June 30, 2024, no adjustments to the allowance for credit losses are considered necessary.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Receivables from the government and other grants due to the Organization are based upon costs incurred, services completed and terms identified in the grant awards. Management determines the need for an allowance for doubtful accounts based on historical collection experience and a review of current grants receivable balances. Accounts written-off are charged against the allowance. The allowance for doubtful accounts is \$558,936 and \$696,927 at June 30, 2024 and 2023, respectively. At June 30, 2024 and 2023, receivables from the government and other grants, net of the allowance for doubtful accounts, are \$13,136,511 and \$12,473,388, respectively.

Total accounts receivable, net at June 30, 2024 and 2023 are \$17,550,719, and \$16,215,263, respectively.

Unconditional Promises to Give

Unconditional promises to give are recognized as revenue in the period received and as assets or decreases in liabilities, depending on the form of the benefits to be received.

The carrying amount of unconditional promises to give is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected. Amounts that are expected to be collected after one year are discounted at the time the pledge is recorded. The allowance for uncollectible amounts is based on management's assessment of the collectibility of specific promises to give. All accounts or portions thereof deemed to be uncollectible or to require an excessive collection cost are written off to the allowance for doubtful promises to give. There is no allowance for doubtful accounts at June 30, 2024 and 2023.

Income Taxes

The Organization is recognized by the Internal Revenue Service as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, except for taxes pertaining to unrelated business income, is exempt from federal and state income taxes.

The Organization follows current accounting guidance which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business income. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes.

With few exceptions, the Organization is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2020. The Organization is not currently under examination by any taxing jurisdiction. It is the Organization's policy to recognize interest and penalties related to unrecognized tax expense when paid.

LSSI Rockford Property, Inc. has a tax year ending December 31. During 2010, LSSI Rockford Property, Inc. completed a sale that was treated for income tax purposes as an installment sale. The deferred tax liability of \$520,475 is included in other long-term liabilities as of June 30, 2024 and 2023 in the consolidated statements of financial position.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Investments

Investments are generally recorded at fair value based upon quoted market prices, when available, or estimates of fair value with gains and losses, net of fees, included in the consolidated statements of activities. Donated securities are recorded at fair value on the date received or at an estimate of fair value when the fair value is not readily available. Investments in partnerships that the Organization does not control are recorded based on the equity method. The Organization considers money market funds held for investment purposes to be investments on the consolidated statements of financial position.

The Organization's external investment advisors are engaged to monitor and report on portfolio performance and to make recommendations to the Foundation's investment committee as to investment manager selection and or replacement and asset allocations. Once those recommendations are approved, Organization management executes the necessary transactions to cause the investment portfolio to conform to the asset allocation percentages as approved. Monitoring and rebalancing of the investment portfolio is conducted on an ongoing basis by management subject to the tolerances within the approved investment policy.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair value at the date of the gift, if donated. All acquisitions of property and equipment generally in excess of \$3,000 and all expenditures for repairs, maintenance, improvements and betterments that materially prolong the useful lives of assets are capitalized. Maintenance, repairs and minor improvements are expensed as incurred. When assets are retired or otherwise disposed of, their costs and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in the change in net assets.

Property and equipment are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings	25-40 years
Other improvements	5-25 years
Furniture and equipment	3-7 years

Impairment of Long-Lived Assets

The Organization reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or the fair value less costs to sell. To date, there have been no such losses recorded due to impairment.

Sale and Lease-Back of Property

In September 2017, the Organization entered an agreement to sell one of its properties and lease that property from the purchaser. The lease of the property met the criteria for capitalization and is included in operating lease right-of-use assets on the consolidated statements of financial position at June 30, 2024 and 2023. The lease information is included in Note 17.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

The sale price was \$3,000,000 and resulted in a deferred gain of \$2,262,902 at the time of the sale. The gain is recognized in proportion to the amortization of the leased asset. During 2024 and 2023, \$176,519 and \$110,358, respectively, was recognized in gain on disposal of property on the consolidated statements of activities. The total remaining deferred gain of \$1,039,929 and \$1,216,448 is reported as liabilities on the consolidated statements of financial position at June 30, 2024 and 2023, respectively.

In February 2019, the lease was amended to decrease the amount of space leased, extend the lease term and adjust the lease payments. At the time of the amendment, the capitalized asset and related lease obligation were revalued to reflect the present value of the future minimum payments under the amended lease and a corresponding increase in the asset and liability was recorded of \$2,306,855. In addition to amending the lease terms, the Organization received a lease incentive of \$500,925 to be used for improvements of the leased property. The lease incentive was used for construction and a leasehold improvement asset of \$500,925 was placed into service during 2020. A deferred lease incentive liability is reported in the consolidated financial statements. The deferred lease incentive is recognized straight-line over the life of the leased asset. The deferred lease incentive is \$302,642 and \$344,386 at June 30, 2024 and 2023, respectively.

Escrow Deposit Accounts

At June 30, 2024 and 2023, the Organization had restricted cash totaling \$9,120,744 and \$8,871,012, respectively, mainly related to replacement reserves, tenant security deposits, residual receipts and minimum capital investments required by the U.S. Department of Housing and Urban Development (HUD). HUD regulations require these funds be held in segregated accounts. HUD has provided guidance to the Organization on the repayment terms of residual receipts reserve balances. All amounts greater than \$250 per unit, totaling \$169,403 and \$241,643 at June 30, 2024 and 2023, respectively, are reflected as a liability.

Advertising

Nondirect advertising and promotion costs are charged to management and general when incurred and for the years ended June 30, 2024 and 2023 the amounts included were \$221,431 and \$147,075, respectively.

Conditional Capital Advance and Assisted Living Conversion Grant Agreement

The Organization recognizes unconditional contributions as revenue in the period the donation is received. Conditional contributions, that is, those with a measurable performance or other barriers, and a right of return, are recognized when they become unconditional, that is, when the conditions are met as required under FASB ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The remaining grant revenue from the capital advance and assisted living conversion grants agreements with HUD will be recognized at the time all conditions are met.

Split Interest Gift Arrangements

The Organization has entered into split interest gift arrangements that are mainly comprised of gift annuities and charitable trusts. Gift annuities provide that the annuitants will receive payments for life. The payments will continue even if related assets have been exhausted. At the death of the annuitants, all remaining assets, if any, are directed in accordance with the related agreements.

Charitable trusts provide that the income beneficiaries will receive payments for life, so long as there are assets available in the trust. At the death of the income beneficiaries, all remaining assets are directed in accordance with the related agreements.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

At June 30, 2024 and 2023, the Organization held investments of \$1,875,844 and \$1,651,023, respectively, associated with these split interest agreements, which are recorded as investments held for long-term purposes on the consolidated statements of financial position.

The liability for split interest gift arrangements represents the present value of the obligations due to the annuitants and income beneficiaries. The present value was calculated based on life expectancies using discount rates determined at the date of the gift that range from 1.8% to 10.6%.

Net Assets

The Organization presents its consolidated financial statements in accordance with current accounting guidance, under which the Organization is required to report information regarding its financial position and activities according to classes of net assets as follows:

Net Assets Without Donor Restrictions. Net assets that are not subject to donor-imposed stipulations or time restrictions. The Organization's Board of Directors has the ability to designate net assets without donor restrictions to be used by management for specific future projects or activities. These designations can be modified or removed by the Board of Directors at any time. There were no net assets designated by the Board of Directors as of June 30, 2024 and 2023.

Net Assets With Donor Restrictions. Net assets that are subject to donor-imposed stipulations that expire by passage of time, can be fulfilled and removed by actions of the Organization pursuant to those stipulations, or that they be maintained in perpetuity by the Organization.

Distributions

The Organization's regulatory agreements with HUD stipulate among other things, that the Organization will not make distributions of assets or income to any of its officers or directors.

Support and Revenue

Contracts With Customers

Program service fees and certain fees from government agencies result from contracts with customers and are considered to be exchange transactions. Program service fees and certain government fees are reported at the amount that reflects the consideration the Organization expects to receive in exchange for the services provided.

Revenue under contracts with customers is recognized when the customer obtains control of the good or service and is recognized to depict the transfer of promised goods or services in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services.

A performance obligation is a distinct good, service or a bundle of goods and services promised in a contract. The Organization identifies performance obligations at the inception of a contract and allocates the transaction price to individual performance obligations to appropriately depict the Organization's performance in transferring control of the promised goods or services to the customer. Contracts with customers do not include a significant financing component.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Revenue from contracts with customers relate to the Organization's behavioral health, senior and disability services. The performance obligation is to perform the indicated services for the customers under the contract. Depending on the contract, revenues are recognized either at a point in time or over the time that services are provided to the customer, which are then billed by the Organization to the customer or third-party payor. Revenue from contracts with customers consist of contracts with individual patients and their caregivers that are mostly insured by Medicaid, Medicare or managed care organizations. The other contracts within program service fees are with commercially insured individuals and private pay individuals. The Organization reviewed contracts using a portfolio approach by payor and service type due to similarities in contracts.

The transaction prices are generally listed in the contracts or individual client agreements. The Organization determines the net transaction price based on contractual adjustments under terms of third-party reimbursement agreements, a review of patient balances and the likelihood of payment based on historical experience as well as specific patient circumstances. Revenue is recorded net of contractual allowances and implied price concessions.

There are no expressed or implied warranties. There is no revenue recognized for services performed in prior periods. There are no contract assets or liabilities with these revenue sources. Total revenues from contracts with customers were \$19,640,749 and \$18,372,164 for the years ending June 30, 2024 and 2023, respectively, and are included in program service fees and fees and grants from government agencies on the consolidated statements of activities.

Contributions and Grants

The Organization receives a significant portion of its operating funds from grants and awards. Grants are recognized as revenue in the period barriers are overcome. Grants where the conditions and restrictions are met simultaneously are presented as without donor restrictions on the consolidated statements of activities.

The Organization recognizes unconditional contributions received, including unconditional promises to give, as revenue in the period the promises are received at their fair values. Conditional contributions, that is, those with a measurable performance or other barrier, and a right of return, are recognized when they become unconditional, that is, when the conditions are met. As of June 30, 2024 and 2023, the Organization has one conditional contribution which is reflected as a refundable advance on the consolidated statements of financial position (see Note 6).

The Organization receives contributions through unconditional promises to give, bequests, life insurance premium payments, split interest gift arrangements and outright cash gifts. Contributions are classified as with donor restrictions or without donor restrictions based on donor instructions. Split interest gift arrangement receipts are classified partially as contributions and partially as a liability for the present value of the obligation. Upon the death of the annuitants or income beneficiaries, the remaining amount is classified as with donor restrictions or without donor restrictions based on stipulations of the donor.

Contributions that are restricted by the donor are reported as contributions with donor restrictions. When a restriction expires, the net assets with donor restrictions are reclassified to net assets without donor restrictions.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Investment Income

Investment income is presented net of fees. Investment income and realized and unrealized gains (losses) resulting from contributions are reported as with donor restrictions or without donor restrictions, as directed by the donor. Investment income and realized and unrealized gains (losses) restricted by a donor are reported as increases (decreases) in net assets with donor restrictions and released when the restrictions are met.

Loss on Casualty

In May 2024, flooding and a subsequent electrical explosion occurred at the Salem Village III, Inc. The event resulted in repair and maintenance expenditures to bring the property back to its original condition and expenses to house residents that were displaced from their units. Costs incurred include: emergency water mitigation and drying services; emergency electrical services; cleaning and restoration services; painting and sealing, and occupancy costs for displaced residents. Management filed insurance claims for costs to bring the property back to its original condition. As of the date of the consolidated financial statements, costs associated with occupancy for displaced residents are currently being claimed and negotiated with insurance. Management is therefore unable to estimate the amount of insurance proceeds that will be received associated with the occupancy costs. During the year ended June 30, 2024, insurance proceeds of \$363,756 were recognized and netted with the expenditures of approximately \$1,159,000. \$143,756 of the proceeds was outstanding at the year ending June 30, 2024. The net loss on casualty of \$795,829 is presented on the consolidated statement of activities for the year ended June 30, 2024.

Donated Services, Materials and Property

The Organization uses the services of volunteers who contribute their time and materials to provide services to the various programs. Volunteer hours utilized in 2024 and 2023 are not reflected in the consolidated financial statements as they generally do not require specialized skills.

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service.

Functional Expense Allocation

Directly identifiable expenses are charged to program services, management and general and fundraising. Salaries are allocated based on time and effort. Certain employee health and retirement benefits and payroll taxes are allocated based on number of employees and direct labor costs. Occupancy is allocated based on square footage. Interest expense that is not directly charged is allocated based on square footage. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Operations

The Organization's operating revenues and expenses include all activities that are an integral part of its programs and supporting activities. The measure of operations excludes actuarial gains or losses on annuity obligations and casualty losses on the consolidated statements of activities because management does not consider them integral to its operations.

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Liquidity and Availability of Resources

The following reflects the Organization's financial assets as of June 30, 2024 and 2023, reduced by amounts not available for cash needs within one year for general use because of contractual or donor-imposed restrictions.

	<u>2024</u>	<u>2023</u>
Total assets, at year-end	\$ 128,713,164	\$ 119,815,988
Less nonfinancial assets:		
Lease right-of-use assets	(11,529,465)	(10,359,621)
Property and equipment, net	(45,336,522)	(48,069,958)
Prepaid expenses and other assets	(327,756)	(463,816)
Cash surrender value for life insurance	<u>(273,142)</u>	<u>(259,679)</u>
Financial assets, at year-end	71,246,279	60,662,914
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions	(4,964,496)	(4,108,209)
Investments held in annuity trust	(1,875,844)	(1,651,023)
Permanently endowed funds	(8,298,167)	(6,070,869)
Security deposits	(87,618)	(87,618)
Escrow deposit accounts	<u>(9,120,744)</u>	<u>(8,871,012)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 46,899,410</u>	<u>\$ 39,874,183</u>

The Organization's liquidity management practice is to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization is substantially supported by government contracts. The Organization has renewed all significant grants and contracts for the next fiscal year. Housing Services program subsidies and rent payments are received monthly. Children's Community Services receives funding monthly for children in care. Behavioral Health Services, Developmental Disabilities Services and Senior Community Services fees are billed for and paid on an ongoing basis throughout the year. Fundraising by the Organization and the Foundation is also used to support operations. As part of the Organization's liquidity management, the Organization invests cash in excess of daily requirements in short-term investments. In the event of an unanticipated liquidity need, the Organization has up to \$6,250,000 available on an additional line of credit (see Note 5).

Lutheran Social Services of Illinois and Subsidiary Corporations

Notes to Consolidated Financial Statements

June 30, 2024 and 2023

Adopted Accounting Pronouncements

In June 2016, FASB issued ASU No. 2016-13, *Measurement of Financial Instruments—Credit Losses (Topic 326)*. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its initial issuance in 2016, FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaces several existing impairment methods in current U.S. GAAP, which generally require that a loss be incurred before it is recognized. On July 1, 2023, the Organization adopted the ASU using the modified retrospective approach. There was no adjustment to net assets upon adoption and the disclosure for accounts receivable was expanded to describe management's policies under ASU No. 2016-13.

2. Fair Value Measurements

The Organization follows authoritative accounting guidance relating to fair value measurements, which provides a framework for measuring, reporting and disclosing fair value under generally accepted accounting principles. This guidance applies to all assets and liabilities that are measured, reported and/or disclosed on a fair value basis.

As defined in current authoritative guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization uses various valuation methods including the market, income and cost approaches. The assumptions used in the application of these valuation methods are developed from the perspective of market participants pricing the asset or liability. Inputs used in the valuation methods can be either readily observable, market corroborated or generally unobservable inputs. Whenever possible the Organization attempts to utilize valuation methods that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation methods the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Assets and liabilities measured, reported and/or disclosed at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 - Unobservable inputs that are not corroborated by market data.

Lutheran Social Services of Illinois and Subsidiary Corporations

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The table below presents the balances of assets at June 30, 2024 measured at fair value on a recurring basis by level within the hierarchy.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 31,240,160	\$ -	\$ -	\$ 31,240,160
Beneficial interest in funds held in trust	-	-	1,085,352	1,085,352
Other investments	-	-	323,569	323,569
Total assets measured at fair value	<u>\$ 31,240,160</u>	<u>\$ -</u>	<u>\$ 1,408,921</u>	32,649,081
Money market funds				<u>1,433,474</u>
Total investments				<u>\$ 34,082,555</u>

The table below presents the balances of assets at June 30, 2023 measured at fair value on a recurring basis by level within the hierarchy.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds	\$ 21,487,202	\$ -	\$ -	\$ 21,487,202
Beneficial interest in funds held in trust	-	-	992,529	992,529
Other investments	-	-	229,441	229,441
Total assets measured at fair value	<u>\$ 21,487,202</u>	<u>\$ -</u>	<u>\$ 1,221,970</u>	22,709,172
Money market funds				<u>862,807</u>
Total investments				<u>\$ 23,571,979</u>

Mutual funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market.

Beneficial interest in funds held in trust are funds that the Foundation is named as the beneficiary in which they are not the trustee of the assets and are considered Level 3 items as the valuation is based on significant unobservable inputs that are not corroborated by market data. The fair value of the beneficial interest in ELCA endowment fund is based on information provided by ELCA. Net realized and unrealized gains included in the change in net assets are \$92,823 and \$66,081 for the years ended June 30, 2024 and 2023, respectively. There were no deposits or withdrawals for the years ended June 30, 2024 and 2023.

Other investments consist of ownership of a nonpublicly traded company and is considered a Level 3 item as the valuation is based on significant unobservable inputs that is not corroborated by market data. The fair value of the other investments is based on information provided by the nonpublicly traded company. There were no deposits for the years ended June 30, 2024 and 2023. There were \$40,000 and \$0, respectively, in distributions during the years ended June 30, 2024 and 2023. Net unrealized gains included in the change in net assets are \$134,128 and \$207,730 for the years ended June 30, 2024 and 2023, respectively.

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The valuation of money market funds are determined using cost. As a result they are excluded from the fair value hierarchy level disclosures.

3. Short-Term Investments

Investments and related unrealized appreciation (depreciation) as of June 30, 2024 are summarized as follows:

	<u>Cost or Gift Value</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Total Investments at Fair Value</u>
LSSI funds:			
Financial Square Treasury Obligations Fund	\$ 4,430,647	\$ 269,699	\$ 4,700,346
Foundation funds:			
Schwab Money Market Fund	1,270,794	-	1,270,794
American Funds EuroPacific Growth Fund	3,700,547	244,967	3,945,514
Vanguard Emerging Markets Stock Index	881,722	(3,328)	878,394
Baird Aggregate Bond Fund	4,684,841	(334,925)	4,349,916
Blackrock Strategic Income Opportunities Portfolio	2,065,227	(110,118)	1,955,109
Vanguard Total Stock Market Fund	9,490,595	4,207,071	13,697,666
Subtotal Foundation funds	<u>22,093,726</u>	<u>4,003,667</u>	<u>26,097,393</u>
Total short-term investments	<u>\$ 26,524,373</u>	<u>\$ 4,273,366</u>	<u>\$ 30,797,739</u>

Investments and related unrealized appreciation (depreciation) as of June 30, 2023 are summarized as follows:

	<u>Cost or Gift Value</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Total Investments at Fair Value</u>
LSSI funds:			
Mainstay Marketfield Fund	\$ 201,781	\$ 144,954	\$ 346,735
Foundation funds:			
Schwab Money Market Fund	825,161	-	825,161
American Funds EuroPacific Growth Fund	3,254,217	80,273	3,334,490
Vanguard Emerging Markets Stock Index	785,860	(69,597)	716,263
Baird Aggregate Bond Fund	3,746,292	(341,956)	3,404,336
Blackrock Strategic Income Opportunities Portfolio	1,815,858	(146,047)	1,669,811
Vanguard Total Stock Market Fund	8,515,622	1,886,517	10,402,139
Subtotal Foundation funds	<u>18,943,010</u>	<u>1,409,190</u>	<u>20,352,200</u>
Total short-term investments	<u>\$ 19,144,791</u>	<u>\$ 1,554,144</u>	<u>\$ 20,698,935</u>

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4. Investments, Held for Long-Term Purposes

Investments related to life annuity contracts and for the Andrew E. Seaver Trust Fund are stated at fair value. Investments and unrealized appreciation (depreciation) at June 30, 2024 are summarized as follows:

	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
Foundation investments related to life annuity contracts:			
Money market funds	\$ 162,680	\$ -	\$ 162,680
Bond mutual funds	812,147	(56,304)	755,843
Equity mutual funds	636,059	321,262	957,321
Subtotal	<u>1,610,886</u>	<u>264,958</u>	<u>1,875,844</u>
ELCA Endowment Fund	<u>992,529</u>	<u>92,823</u>	<u>1,085,352</u>
Other investments:			
Investment in partnership	40,000	283,569	323,569
Other mutual fund	51	-	51
Subtotal	<u>40,051</u>	<u>283,569</u>	<u>323,620</u>
Total investments held for long-term purposes	<u>\$ 2,643,466</u>	<u>\$ 641,350</u>	<u>\$ 3,284,816</u>

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Investments and unrealized appreciation (depreciation) at June 30, 2023 are summarized as follows:

	<u>Cost</u>	<u>Unrealized Appreciation (Depreciation)</u>	<u>Fair Value</u>
Foundation investments related to life annuity contracts:			
Money market funds	\$ 37,646	\$ -	\$ 37,646
Bond mutual funds	831,767	(73,404)	758,363
Equity mutual funds	707,094	147,920	855,014
Subtotal	<u>1,576,507</u>	<u>74,516</u>	<u>1,651,023</u>
ELCA Endowment Fund	<u>833,276</u>	<u>159,253</u>	<u>992,529</u>
Other investments:			
Investment in partnership	40,000	189,441	229,441
Other mutual fund	51	-	51
Subtotal	<u>40,051</u>	<u>189,441</u>	<u>229,492</u>
Total investments held for long-term purposes	<u>\$ 2,449,834</u>	<u>\$ 423,210</u>	<u>\$ 2,873,044</u>

The following schedules summarize the investment return, which includes interest on cash and cash equivalents, short-term and long-term investments and its classification in the consolidated statements of activities:

	2024		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 1,031,660	\$ 137,842	\$ 1,169,502
Net realized and unrealized gains	2,437,405	477,594	2,914,999
Less fees	(42,587)	-	(42,587)
Total investment return, net	<u>\$ 3,426,478</u>	<u>\$ 615,436</u>	<u>\$ 4,041,914</u>
	2023		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Interest and dividend income	\$ 518,696	\$ 90,334	\$ 609,030
Net realized and unrealized gains	1,804,262	341,031	2,145,293
Less fees	(45,477)	-	(45,477)
Total investment return, net	<u>\$ 2,277,481</u>	<u>\$ 431,365</u>	<u>\$ 2,708,846</u>

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5. Line of Credit

The Organization has a line of credit with Mission Investment Fund Evangelical Lutheran Church in America with availability up to \$6,250,000. The line of credit is renewable annually. The line of credit has an interest rate of 4.25% and is due monthly. The line of credit is secured by properties located at 5517 N. Kenmore, Chicago, Illinois, 4840 W. Byron St., Chicago, Illinois, 675 Varsity Drive, Elgin, Illinois and 1640 W. Morse, Chicago, Illinois.

As of June 30, 2024 and 2023, the Organization's borrowing under the line was \$0. Interest expense on the line of credit was \$0 in 2024 and 2023.

6. Refundable Advance

In 2020, the Organization received proceeds in the amount of \$9,985,367 under the Paycheck Protection Program (PPP) which was established as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act and is administered through the Small Business Administration (SBA). The PPP provides loans to qualifying nonprofit organizations in amounts up to 2.5 times their average monthly payroll expenses and was designed to provide a direct financial incentive for qualifying nonprofit organizations to keep their workforce employed during the Coronavirus crisis. PPP loans are uncollateralized and guaranteed by the SBA. Advances from the PPP are forgivable after a covered period (eight or 24 weeks) as long as the borrower maintains its payroll levels and uses the proceeds for eligible expenses, including payroll, benefits, mortgage interest, rent and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. The Organization initially recorded the funds as a refundable advance and will record the forgiveness in accordance with guidance for conditional contributions when there is no longer a measurable performance barrier or other barrier and no longer a right of return of the PPP loan, or when such conditions are explicitly waived. Any unforgiven portion is payable over 2 years if issued before, or 5 years if issued after, June 5, 2020 at an interest rate of 1% with payments deferred until the SBA remits the Organization's loan forgiveness amount to the lender or, if the Organization does not apply for forgiveness, 10 months after the end of the covered period. PPP loan terms provide for customary events of default, including payment defaults, breaches of representations and warranties and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, PPP loan terms do not include prepayment penalties.

As of June 30, 2024 and 2023, the Organization does not believe it has met all the conditions attached to the PPP funds, therefore, no grant revenue is recorded within its consolidated statements of activities for the years ending June 30, 2024 and 2023. The full amount of \$9,985,367 of PPP funds received are recorded as a refundable advance in the Organization's consolidated statements of financial position.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan is issued and to provide that documentation to the SBA upon request. The Organization does not believe the results of any audits or reviews by the SBA would have a material impact on the consolidated financial statements.

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Notes to Consolidated Financial Statements

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7. Long-Term Debt

Long-term debt at June 30 consists of the following:

	<u>2024</u>	<u>2023</u>
Mortgages payable:		
Mortgage payable to P/R Mortgage & Investment Corp. with monthly payments of \$30,697 including interest at 3.38%. Any remaining principal or interest is due July 1, 2052. The mortgage payable is secured by a mortgage on the building and land, is insured by HUD under Section 223(f) of the National Housing Act and is subject to a prepayment penalty through July 2027. (Salem Village III, Inc.)	\$ 6,674,479	\$ 6,814,729
Mortgage payable with P/R Mortgage & Investment Corp. in the amount of \$5,368,000. Monthly payments of \$23,607, including interest at 3.95% were required beginning September 1, 2013 balance due August 1, 2048. The mortgage payable is secured by a mortgage on the rental property, is insured by HUD under Section 223(f) of the National Housing Act. (Batavia Council on Aging, Inc.)	<u>4,406,541</u>	<u>4,513,470</u>
Total mortgages payable	11,081,020	11,328,199
Less current maturities	<u>(256,096)</u>	<u>(246,992)</u>
Long-term portion of mortgages payable	10,824,924	11,081,207
Less loan costs, net of accumulated amortization	<u>(351,927)</u>	<u>(365,331)</u>
Total long-term portion of mortgages payable, net	<u>\$ 10,472,997</u>	<u>\$ 10,715,876</u>

Legal and accounting fees, printing costs and other expenses associated with the issuance of debt held by the Organization are included in mortgages payable and are amortized over the term of the mortgages on a straight line basis, which approximates the effective interest rate method.

Amortization included in interest expense in the consolidated statements of activities for the years ended June 30, 2024 and 2023 was \$13,404 and \$13,404, respectively. At June 30, 2024 and 2023, the remaining net amount of debt issuance costs was \$351,927 and \$365,331, respectively.

The following annual principal maturities of the above mortgages for the next five years and thereafter are as follows:

Years ending June 30:	
2025	\$ 256,096
2026	265,677
2027	275,479
2028	285,645
2029	296,189
Thereafter	<u>9,701,934</u>
Total	<u>\$ 11,081,020</u>

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Notes to Consolidated Financial Statements

June 30, 2024 and 2023

8. Capital Advance Agreements

The Organization has funded the construction of various housing projects through capital advance agreements with HUD, which provided for borrowings not to exceed \$64,779,300 at June 30, 2024 and 2023. The agreements are given to the HUD Projects in the form of mortgage notes and bear no interest and require no repayment provided that the housing to which they relate remains available for low-income elderly or developmentally disabled persons in accordance with the appropriate regulations. The amount drawn at June 30, 2024 and 2023 was \$64,779,300. If the Organization does not comply with the terms of the agreements, the entire capital advance amount plus interest would be required to be paid back to HUD. The Organization will recognize the remaining revenue from the capital advance agreements at the time all conditions are met.

The conditional capital advance agreement recorded at June 30, 2024 and 2023 consists of conditional capital advance agreements for the following HUD Projects:

	<u>Year of Expiration</u>	<u>Amount Drawn to Date</u>	<u>Grant Revenue Recognized Through June 30, 2024</u>	<u>Conditional Grant Revenue</u>
Assisi Homes-Downer Place, Inc.	2039	\$ 7,057,900	\$ 3,407,265	\$ 3,650,635
Our Savior's Senior Housing	2035	6,059,600	3,623,088	2,436,512
Tabor Lutheran Senior Housing, Inc.	2038	5,884,600	2,903,488	2,981,112
Rochelle Senior Housing, Inc.	2036	3,531,400	2,005,184	1,526,216
Freeport Senior Housing, Inc.	2033	3,197,300	2,055,402	1,141,898
Northwest Chicago Group Homes, Inc.	2034	1,483,800	938,217	545,583
Freeport Senior Housing II, Inc.	2042	3,039,200	1,261,458	1,777,742
Aurora Senior Housing, Inc.	2040	3,895,500	1,755,390	2,140,110
Victorian Woods Senior Living	2046	6,524,200	2,115,595	4,408,605
Spring Ridge Housing for Seniors, Inc.	2048	7,759,800	2,179,912	5,579,888
Rolling Meadows Senior Living, Inc.	2049	3,290,600	816,417	2,474,183
Deer Creek Manor, Inc.	2049	3,568,300	861,672	2,706,628
Fox Hill Senior Housing, Inc.	2053	9,487,100	1,383,550	8,103,550
Total		<u>\$ 64,779,300</u>	<u>\$ 25,306,638</u>	<u>\$ 39,472,662</u>

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Notes to Consolidated Financial Statements

June 30, 2024 and 2023

9. Federal Home Loan Grant Agreements

The Organization received grants totaling \$190,000 from One Mortgage Partners Corporation, a member of the Federal Home Loan Bank of Chicago, to partially fund the construction of two housing projects. The grants are in the form of mortgage notes which bear no interest and require no repayment provided that the housing to which they relate remains available for low-income elderly persons in accordance with the appropriate regulations and other grant requirements. The Organization has met all conditions for recognizing the remaining revenue from the capital advance; however, One Mortgage Partners Corporation, the mortgagee, sold its assets to JP Morgan Chase Bank and ceased its operations on December 31, 2021. The Organization is currently working to determine if JP Morgan Chase holds the mortgages securing the capital advances. When the Organization is able to confirm with the current mortgagee that all conditions have been met and secure a release of mortgage, the Organization will recognize the remaining revenue from the capital advances. The conditional federal home loan grant agreements recorded at June 30, 2024 and 2023 are \$66,004. If the Project does not comply with the terms of the agreement, the entire grant would be required to be paid back to JP Morgan Chase Bank.

10. Assisted Living Conversion Grant Agreement

The Organization has funded the conversion of 56 units at Salem Village III, Inc. (Salem Village) housing project to assisted living units through an Assisted Living Conversion Grant Agreement with HUD, which provided for borrowings not to exceed \$6,339,159. This agreement provides funding for physical costs of the conversion, legal, architectural and consulting fees and temporary relocation costs, including vacancy losses. The agreement requires no principal and interest payments as long as Salem Village is used for approved purposes until July 1, 2039. The agreement is secured by the related building. If Salem Village does not comply with the terms of the agreement, the entire assisted living conversion grant amount would be required to be paid back to HUD.

Funding of \$514,240 was recognized in prior years relating to temporary relocation costs, including vacancy losses. The conditional assisted living conversion grant agreement recorded at June 30, 2024 and 2023 was \$3,602,995. Salem Village will recognize the remaining revenue from the conversion grant at the time all conditions are met.

11. Defined Contribution Retirement Plan

The Organization has adopted a defined contribution retirement plan (Plan) under Internal Revenue code Section 403(b). All Organization employees (except temporary employees) who have completed one year of service are eligible to participate in the Plan. All such eligible employees who are at least age 21 may elect to make contributions to the Plan through salary deductions. There is no minimum service requirement to make employee contributions to the Plan. Under the Plan, the Organization may make a discretionary annual employer contribution to eligible participants. During 2024 and 2023, the Organization contributed \$1,025,896 and \$874,031, respectively, to the plan.

12. Worker's Compensation Trust

The Organization has a self-funded Worker's Compensation Trust (the Trust) which is organized and operated under the provisions of the Illinois Religious and Charitable Risk Pooling Trust Act. The trustees of the Trust are appointed by the Organization.

The Organization makes monthly contributions to the Trust. The Organization has recorded a liability for unpaid contributions, which includes unpaid claims and claims incurred but not reported, of \$659,856 and \$699,131 at June 30, 2024 and 2023, respectively. The estimated liability is classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

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Notes to Consolidated Financial Statements

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13. Accrued Salaries and Wages

Accrued salaries and wages include accrued vacation pay of \$3,333,474 and \$2,918,118 at June 30, 2024 and 2023, respectively.

14. Accrued Unemployment

The Organization pays for Illinois unemployment compensation on a claims-made basis. At June 30, 2024 and 2023, \$42,851 and \$42,662, respectively, was accrued as the estimated liability for these claims. These amounts are classified as accounts payable and other accrued expenses on the consolidated statements of financial position.

15. Net Assets

Net assets have been received to be held in perpetuity for several programs. The amounts of these net assets as of June 30 are shown below by program:

	<u>2024</u>	<u>2023</u>
Adoption services	\$ 131,736	\$ 131,736
Behavioral health	16,248	16,248
Child and adolescent	203,223	203,223
Children and disabled individuals	302,802	302,802
Children and older adults	1,191,190	1,191,190
Endowment for general use	6,016,066	3,788,768
Leadership and awards	116,090	116,090
Older adults	267,875	267,875
Other programs	5,576	5,576
Services outside metropolitan Chicago	<u>47,361</u>	<u>47,361</u>
Total net assets with donor restrictions to be held in perpetuity	<u>\$ 8,298,167</u>	<u>\$ 6,070,869</u>

The income from these assets must be used in support of the aforementioned programs and purposes.

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Net assets with donor restrictions are available for the following programs or purposes as directed by the donors as of June 30:

	<u>2024</u>	<u>2023</u>
Adoption services	\$ 95,313	\$ 68,066
Administration	306,793	306,793
Behavioral health	813,881	495,377
Child and adolescent	335,491	265,471
Children and disabled individuals	1,049,087	818,182
Children and older adults	986,465	725,118
Disaster relief	649,622	630,707
Leadership and awards	155,075	133,690
Older adults	170,487	158,775
Other programs	402,282	506,030
Total net assets with time and/or purpose restrictions	<u>\$ 4,964,496</u>	<u>\$ 4,108,209</u>

The total net assets with donor restrictions was \$13,262,663 and \$10,179,078 at June 30, 2024 and 2023, respectively.

16. Endowment Funds

The endowment is held at the Foundation. The Foundation follows current authoritative accounting guidance relating to endowments of not-for-profit organizations and enhanced disclosures for all endowment funds. Guidance is provided on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA governs the treatment for endowment funds. A key component of the guidance and UPMIFA is a requirement to classify the portion of a donor-restricted endowment fund that is not yet appropriated as net assets with donor restrictions until appropriated for expenditure.

The Foundation's endowment consists of 42 individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. Any restricted contributions to be held in perpetuity received from donors are included in the donor-restricted endowment fund. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law. The Foundation classifies as net assets with donor restrictions (a) the original value of the gifts donated to the perpetual endowment and (b) the original value of subsequent gifts to the perpetual endowment.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

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Endowment net asset composition consists of the following as of June 30, 2024:

	With Donor Restrictions		Total
	Time or Purpose	Held in Perpetuity	
Donor-restricted endowment funds	\$ 1,717,625	\$ 8,298,167	\$ 10,015,792

Endowment net asset composition consists of the following as of June 30, 2023:

	With Donor Restrictions		Total
	Time or Purpose	Held in Perpetuity	
Donor-restricted endowment funds	\$ 1,303,369	\$ 6,070,869	\$ 7,374,238

Changes in endowment net assets for the years ended June 30, 2024 are as follows:

	With Donor Restrictions		Total
	Time or Purpose	Held in Perpetuity	
Endowment net assets, June 30, 2023	\$ 1,303,369	\$ 6,070,869	\$ 7,374,238
Investment return:			
Investment income, net	95,358	-	95,358
Net appreciation realized and unrealized	318,898	-	318,898
Total investment return	414,256	-	414,256
Contributions	-	2,227,298	2,227,298
Endowment net assets, June 30, 2024	\$ 1,717,625	\$ 8,298,167	\$ 10,015,792

Changes in endowment net assets for the year ended June 30, 2023 are as follows:

	With Donor Restrictions		Total
	Time or Purpose	Held in Perpetuity	
Endowment net assets, June 30, 2022	\$ 1,009,135	\$ 4,795,025	\$ 5,804,160
Investment return:			
Investment income, net	59,676	-	59,676
Net appreciation realized and unrealized	234,558	-	234,558
Total investment return	294,234	-	294,234
Contributions	-	1,275,844	1,275,844
Endowment net assets, June 30, 2023	\$ 1,303,369	\$ 6,070,869	\$ 7,374,238

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Return Objectives and Risk Parameters. The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream for funding programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that exceed 5% annually while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy. The Foundation has a policy of appropriating for distribution each year up to 4-5% of the lower of its endowment fund's average fair value of applicable assets over the prior four or 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is appropriated. The distribution is subject to Board of Trustee approved agreements. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of approximately 3% annually. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

17. Leases

The Organization has entered into real property operating leases that are generally utilized for office and residential community housing activities with original terms ranging from three to ten years. These leases have available renewal options, generally extending the terms of the underlying leases for one to five years per renewal term. Certain of these leases additionally contain early termination options. The Organization has also entered into real property finance leases that are utilized for office activities with original terms ranging from five to twelve years. These finance leases have available renewal options, generally extending the terms of the underlying leases from two to five years per renewal term. The real property leases generally require the payment of fixed monthly base rent payments which may escalate over the term of the lease. The Organization is responsible for paying other variable lease operating expenses including property taxes, property insurance and maintenance and repair costs.

The Organization has personal property leases consisting of office equipment and vehicles. Office equipment operating and finance leases generally have original terms ranging from two to five years. These leases generally provide the option to auto-renew the lease annually as well as the option to purchase the underlying leased asset at its fair market value upon expiration of the lease term. The office equipment leases require monthly payments for variable operating expenses including property taxes, property insurance and maintenance and repair costs.

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The Organization has a fleet of vehicles which are leased under a master lease agreement. The vehicles are used in the Organization's operations and are classified as either operating or finance leases. These leases have original terms ranging from three to five years. Generally, the Organization has the option to renew the leases for multiple one year terms. The vehicle leases require monthly payments for variable operating expenses including property taxes, property insurance and maintenance and repair costs. The vehicle leases also include a residual value guarantee whereby the Organization must ensure a minimum value of the asset upon expiration of the lease and is obligated to reimburse the lessor for any shortfall of the asset's value as compared to the residual value guarantee. The Organization has not included the residual value guarantee amounts in future lease payments.

Right-of-use assets represent the Organization's right to use an underlying asset for the lease term, while lease liabilities represent the Organization's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the commencement date of a lease based on the net present value of lease payments over the lease term.

Certain of the Organization's leases include options to renew or terminate the lease. The exercise of lease renewal or early termination options is at the Organization's sole discretion. The Organization regularly evaluates the renewal and early termination options and when they are reasonably certain of exercise, the Organization includes such options in the lease term. Additionally, upon adoption of the new standard, the Organization made judgments regarding lease terms for certain of its real property leases that were in month-to-month status or that contained auto-renewal clauses. The Organization estimated a lease end date based on the required length of usage of the property and calculated a right-of-use asset and lease liability with the resulting estimated lease term.

In determining the discount rate used to measure the right-of-use assets and lease liabilities, the Organization uses the rate implicit in the lease, or if not readily available, the Organization uses a risk-free rate based on U.S. Treasury notes or bond rates for a similar term.

Right-of-use assets are assessed for impairment in accordance with the Organization's long-lived asset policy. The Organization reassesses lease classification and remeasures right-of-use assets and lease liabilities when a lease is modified and that modification is not accounted for as a separate new lease or upon certain other events that require reassessment in accordance with Topic 842.

The Organization made significant assumptions and judgments in applying the requirements of Topic 842. In particular, the Organization:

- Evaluated whether a contract contains a lease, by considering factors such as whether the Organization obtained substantially all rights to control an identifiable underlying asset and whether the lessor has substantive substitution rights;
- Determined whether contracts contain embedded leases; and
- Evaluated leases with similar commencement dates, lengths of term, renewal options or other contract terms, which therefore meet the definition of a portfolio of leases, whether to apply the portfolio approach to such leases.

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The following table summarizes the lease right-of-use assets and lease liabilities as of June 30:

	<u>2024</u>	<u>2023</u>
Right of use assets:		
Operating leases	\$ 6,297,043	\$ 6,823,292
Finance leases	5,232,422	3,536,329
	<u>\$ 11,529,465</u>	<u>\$ 10,359,621</u>
Lease liabilities:		
Current operating leases liabilities	\$ 1,090,930	\$ 1,123,781
Current finance lease liabilities	691,240	444,137
Long-term operating lease liabilities	5,352,603	5,718,523
Long-term finance lease liabilities	4,830,889	3,525,057
	<u>\$ 11,965,662</u>	<u>\$ 10,811,498</u>

Below is a summary of expenses incurred pertaining to leases during the year ended June 30:

	<u>2024</u>	<u>2023</u>
Finance lease expense:		
Amortization of right-of-use assets	\$ 779,522	\$ 411,671
Interest on lease liabilities	215,637	159,976
Operating lease expense	1,530,526	1,688,683
Short-term lease expense	85,515	44,965
Variable lease expense	263,869	147,563
	<u>\$ 2,875,069</u>	<u>\$ 2,452,858</u>

The following table presents supplemental information related to leases:

	<u>2024</u>	<u>2023</u>
Weighted average remaining lease term (in years)		
Operating leases	7.86	7.85
Finance leases	8.06	7.68
	<u>2024</u>	<u>2023</u>
Weighted average discount rate:		
Operating leases	3.59 %	3.35 %
Finance leases	4.26 %	4.21 %

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The table below summarizes the Organization's schedule future minimum lease payments for years ending after June 30, 2024:

	Operating Leases	Finance Leases
Years ending December 31:		
2025	\$ 1,298,162	\$ 911,625
2026	1,229,771	924,433
2027	1,032,881	889,445
2028	717,720	806,261
2029	585,355	712,159
Thereafter	<u>2,664,339</u>	<u>2,330,307</u>
Total lease payments	7,528,228	6,574,230
Less present value discount	<u>(1,084,695)</u>	<u>(1,052,101)</u>
Total lease liabilities	<u>\$ 6,443,533</u>	<u>\$ 5,522,129</u>

18. Contingencies

The Organization is a defendant in various lawsuits. The final results of such litigation cannot be determined at this time. In the opinion of management, any ultimate liability in these lawsuits would either be within insurance limits or would have no adverse effect on the consolidated financial statements.

As an employer, the Organization is subject to allegations of violation of various laws relating to employment. The Organization's attorneys have advised management that, relative to currently pending complaints, no judgment can be formed as to the likelihood of an unfavorable outcome. Management expects no material liability will be incurred as a result of these complaints.

Some grants received by the Organization are subject to audit and the Organization could become liable for any expenditures disallowed upon audit. Management believes, however, that such disallowance, if any, would not be material.

19. Concentrations

Concentrations of Revenue and Support

The Organization receives a significant portion of its revenue and other support from several departments of the State of Illinois and various managed care organizations. If these providers terminated their support of the Organization, the Organization's ability to provide the services described in Note 1 could be significantly reduced.

Concentrations of Credit

The Organization maintains its cash deposits at several financial institutions which, at times, may exceed federally insured limits of \$250,000. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on these deposits. The Organization also maintains cash deposits with Wintrust in a MaxSafe TM account, which disburses funds nightly below the federally insured limit of \$250,000 to each stand alone banking entity within the Wintrust banking system.

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20. Subsequent Events

The Organization has evaluated subsequent events through March 27, 2025, which is the date that the consolidated financial statements were available to be issued, for events requiring disclosure or recording in the consolidated financial statements.